

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

ADJUSTMENT OF RATES OF PLEASANT       )  
HILL WATER DISTRICT UNDER            ) CASE NO. 7332-1  
PURCHASED WATER ADJUSTMENT CLAUSE   )

O R D E R

On June 2, 1982, Pleasant Hill Water District ("Pleasant Hill") filed an application with the Public Service Commission ("Commission") for approval to increase the rates charged to its customers in accordance with the provisions of its purchased water adjustment clause on file with the Commission. Effective April 9, 1982, one of Pleasant Hill's suppliers, Kentucky Water Service, increased the wholesale price of water by \$.15 per thousand gallons.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine an applicant's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed purchased water adjustment and the increase in rates, the Commission has adopted the calendar year ending December 31, 1981,

as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

#### REVENUES & EXPENSES

Pleasant Hill proposed to adjust revenues by \$6,833 to offset the increased cost of purchased water. No other adjustments were proposed. The Commission, after careful examination of Pleasant Hill's financial condition, made the following adjustment to expenses in conformance with its rate-making policy, to more fairly represent the actual operating expenses of Pleasant Hill:

#### Depreciation Expense

Pleasant Hill had depreciation expense for the 1981 calendar year of \$14,461. This reflects depreciation on total plant using a composite rate of approximately 2.46 percent.<sup>(1)</sup> It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction. The annual report reflects that contributions in aid of construction at the end of 1981 were \$311,505, which is approximately 53.1 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the depreciation rates applied by Pleasant Hill and excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$6,779.<sup>(2)</sup>

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<sup>(1)</sup>  $\$14,461 \div \$586,405 = 2.466\%$

<sup>(2)</sup>  $\$586,405$   
 $\underline{-311,506}$

$\$274,899 \times 2.466\% = \$6,779$

Adjustments to the test period operations produced the following results:

	<u>Actual</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$101,161	\$ 0	\$101,161
Operating Expenses	<u>85,707</u>	<u>(849)</u>	<u>84,858</u>
Operating Income	\$ 15,454	\$ 849	\$ 16,303

#### REVENUE REQUIREMENTS

Pleasant Hill's annual debt service based on outstanding debt at the end of 1981 is \$16,850.<sup>(3)</sup> The Commission is of the opinion that the debt service coverage of 1.2 x is the fair, just and reasonable coverage for Pleasant Hill to maintain in that it meets the requirements of its lenders and provides adequate surplus for equity growth. Therefore, based on adjusted test period operations, the Commission finds that Pleasant Hill should be permitted to increase its rates to produce additional annual revenues of \$3,917 as follows:

Adjusted Operating Expenses	\$ 84,858
1.2 x Debt Service Coverage	<u>20,220</u>
Revenue Requirements	\$105,078
Less: Adjusted Operating Revenue	<u>101,161</u>
Increase Granted	<u>\$ 3,917</u>

Thus, the Commission is of the opinion that Pleasant Hill can absorb \$2,916 of the increase in purchased water costs from its supplier.

#### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

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(3) Bonds:	
Principal (5 year average 1982-1986)	\$ 1,200
Interest	13,650
Other Long-Term Debt	<u>2,000</u>
Debt Service	<u>\$16,850</u>

1) Pleasant Hill has the potential to absorb \$2,916 of the purchased water cost increase of \$6,833.

2) The rates proposed by Pleasant Hill are unfair, unjust and unreasonable and should be denied upon application of KRS 278.030.

3) The purchased water adjustment in the amount of \$.12 per 1,000 gallons and the rates in Appendix A will provide additional revenues of \$3,917, are fair, just and reasonable and should be approved.

4) The base rate for future application of the purchased water adjustment clause of Pleasant Hill should be:

<u>Supplier</u>	<u>Rate</u>
Kentucky Water Service	\$1.25 per 1,000 gallons
Oak Hill Water District	1.38 per 1,000 gallons

IT IS THEREFORE ORDERED that the rates as proposed by Pleasant Hill are unfair, unjust and unreasonable and are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates to be charged for water service rendered on and after the date of this Order and are hereby approved.

IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of Pleasant Hill, the base rate for purchased water shall be:

<u>Supplier</u>	<u>Rate</u>
Kentucky Water Service	\$1.25 per 1,000 gallons
Oak Hill Water District	1.38 per 1,000 gallons

IT IS FURTHER ORDERED that Pleasant Hill shall file with this Commission within 30 days of the date of this Order its revised tariff sheet setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 30th day of July, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katherine Spudis  
Vice Chairman

Jim Carreaga  
Commissioner

ATTEST:

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Secretary

## APPENDIX A

### APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 7332-1 DATED JULY 30 1982

The following rates are prescribed for customers served by Pleasant Hill Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>Gallonge Block</u>	<u>Monthly Rate</u>
First 2,000 gallons	\$ 7.24 minimum
Next 3,000 gallons	2.62 per 1,000 gallons
Over 5,000 gallons	2.37 per 1,000 gallons